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RUEHCV/AMEMBASSY CARACAS 0415  
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RUEHLP/AMEMBASSY LA PAZ JUN MADRID 0853  
RUEHSG/AMEMBASSY SANTIAGO 2863  
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SUBJECT: PULP MILL DISPUTE GOES TO COURT

REF: MONTEVIDEO 0435 AND PREVIOUS

**¶1.** (SBU) Summary: Uruguay's dispute with Argentina over the construction of two pulp mills on a shared river (reflets) has reached the International Court of Justice (ICJ). On June 8, both sides, backed by expensive international law firms, presented their opening arguments to the ICJ's 15 magistrates in The Hague. An ICJ ruling on Argentina's petition for an injunction to halt the plants' construction reportedly will be made within the next six to eight weeks. The June 8-9 court hearings were broadcast live on Uruguayan television amid much local interest. Thus far, the Uruguayans appear optimistic that the Court will not issue an injunction to halt the plants' construction in Fray Bentos. However, GOU officials have privately told us that they remain concerned that the issue will not be resolved even if Uruguay prevails in the ICJ. They fear that Argentine environmental activists might once again resume blockades of international bridges and/or that Argentina might somehow interfere with the needed dredging of the Uruguay river, with negative consequences for ships servicing the plants. End Summary.

**¶2.** (U) On June 8, the daily "El Pais" reported from sources close to the President that bilateral discussions with Argentina over the pulp mills would be on hold until the court case in The Hague was decided. Vazquez expressed optimism about Uruguay's prospects at the ICJ, but also indicated that the final resolution to the thorny issue lay in future bilateral negotiations with Argentina, once they resumed. The same sources indicated that Vazquez favors a "joint commission" to monitor pollution on the Uruguay river. Other press articles speculated that a better Mercosur protocol for governing environmental issues will be required to resolve the dispute and avoid such conflicts in the future. (Note: Uruguay is also lodging a complaint against Argentina in Mercosur's arbitration tribunal in an attempt to prevent future bridge blockades and perhaps pave the way for a suit against the GOA. End Note.)

**¶3.** (U) The Spanish company ENCE ended speculation that it might abandon its plans to build its pulp mill in Fray Bentos. Rumors of this circulated in recent weeks because of ENCE's bid to acquire large paper plant in Portugal. ENCE executives reportedly told the GOU on June 7 that the company is firm in its plans to build its plant in Fray Bentos. However, it appears ENCE is keeping its construction activities at the plant site to a minimum pending the outcome of the ICJ case, and in respect of a 90-day suspension of construction requested by Argentina. In April, the GOA had

requested the suspension to facilitate bilateral talks. Meanwhile, the Finnish-owned Botnia plant's construction in Fray Bentos continued unabated, except for a one-day strike by unionized workers last week.

¶4. (SBU) Last week, MFA officials involved in the court case privately told us that, while Uruguay's chances of avoiding a court injunction are good, they are concerned that Argentine nationalist passions will become inflamed if it loses the court case in The Hague. They worried that Argentine activists might resume blocking international bridges and/or that the GOA might somehow interfere with plans to further dredge the Uruguay river. The dredging is needed to make way for large ocean going vessels to reach the pulp plants in Fray Bentos. The GOU has also tightened its security measures around the Botnia plant and at some public events. It fears disruptive incidents such as the one that took place at the EU/LA Summit in Vienna, when a bikini clad woman carrying a placard protesting against the plants appeared in front of world leaders.

5.(SBU) Comment: Despite coinciding with the start of the World Cup, the ICJ proceedings have received widespread public attention in Uruguay. This is because Uruguay considers the pulp mills to be of vital national interest. Thus far, Uruguay is not pursuing a counter case against Argentina for economic damages caused by the bridge blockades. We understand, however, that it is looking at all its options (in Mercosur and elsewhere) to ready its arguments in case they are needed. End Comment.

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